

Financial Statements and Auditors' Report
MICHIGAN PROFESSIONAL INSURANCE AUTHORITY
June 30, 2008 and 2007

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Independent Auditors' Report

Michigan Professional Insurance Authority
Grand Haven, Michigan

We have audited the accompanying financial statements of the Michigan Professional Insurance Authority (a public entity risk pool) as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Michigan Professional Insurance Authority as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on Pages 4 and 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules of Net Investment Income described in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bloomington, Illinois
September 25, 2008

Striegel Knobloch & Company, LLC

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Management's Discussion and Analysis

The Michigan Professional Insurance Authority's discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2008.

Financial Highlights

- The Authority's total assets at June 30, 2008, were \$3,843,628, which included \$3,813,214 of cash and investments.
- The Authority had no outstanding liabilities at June 30, 2008.
- The Authority's total net assets at June 30, 2008, were \$3,843,628.
- The Authority's total revenues were \$1,902,233, and total expenses were \$979,261, for the year ended June 30, 2008.

Overview of Financial Statements

Financial Statements

The Authority accounts for its activities using a single enterprise fund. The statements answer the question "How did we do financially during fiscal year 2008". These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Management's Discussion and Analysis - Continued

Financial Analysis

Net assets at June 30, 2008, totaled \$3,843,628, which is an increase of \$922,972 from the year before. Total revenues for the year ended June 30, 2008, decreased \$293,006 from the prior fiscal year, while total expenses decreased by \$10,742. Investments at June 30, 2008 and 2007, consisted of the following:

	<u>2008</u>	<u>2007</u>
U.S. government obligations	\$ 812,014	\$ 1,043,054
Corporate bonds and notes	779,253	530,308
Mutual funds	872,722	416,623
Common and preferred equities	<u>1,185,498</u>	<u>849,999</u>
	<u>\$ 3,649,487</u>	<u>\$ 2,839,984</u>

Debt Administration

The Authority had no long-term debt at June 30, 2008 and 2007.

Economic Factors

Insurance rates continue to rise for many lines of insurance. Each participating entity faces higher costs in the coming year. The Authority will use its resources to help obtain the most economical sources of coverage available for its participants.

Requests for Information

This financial report is designed to provide a general overview of the Michigan Professional Insurance Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Michigan Professional Insurance Authority
1700 Eaton Drive
Grand Haven, MI 49417

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Net Assets

June 30,

ASSETS

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents (Note 1)	\$ 163,727	\$ 51,522
Investments (Notes 1 and 2)	3,649,487	2,839,984
Interest and dividends receivable	24,414	23,128
Prepaid expenses	<u>6,000</u>	<u>6,022</u>
Total Assets	<u>\$ 3,843,628</u>	<u>\$ 2,920,656</u>

LIABILITIES AND NET ASSETS

Liabilities	\$ -	\$ -
Net assets	<u>3,843,628</u>	<u>2,920,656</u>
Total Liabilities and Net Assets	<u>\$ 3,843,628</u>	<u>\$ 2,920,656</u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30,

	<u>2008</u>	<u>2007</u>
Operating revenue:		
Participating public entities' contributions	\$ <u>1,902,500</u>	\$ <u>1,902,500</u>
Operating expenses:		
Insurance expense	806,224	815,793
Management fees	165,000	165,000
Professional services	<u>8,037</u>	<u>9,210</u>
Total operating expenses	<u>979,261</u>	<u>990,003</u>
Income from operations	923,239	912,497
Non-operating income:		
Net investment income (loss)	<u>(267)</u>	<u>292,739</u>
Change in net assets	922,972	1,205,236
Net assets – beginning, as restated (Note 5)	<u>2,920,656</u>	<u>1,715,420</u>
Net assets – ending, as restated	\$ <u><u>3,843,628</u></u>	\$ <u><u>2,920,656</u></u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Statements of Cash Flows

For the Years Ended June 30,

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities (Note 4):		
Cash received from member assessments	\$ 1,902,500	\$ 1,902,500
Cash paid for premiums	(806,202)	(815,793)
Cash paid for professional and administrative fees	<u>(173,037)</u>	<u>(174,210)</u>
Net cash provided by operating activities	<u>923,261</u>	<u>912,497</u>
Cash flows from investing activities:		
Interest and dividends received	136,829	91,732
Purchase of investments	(3,623,383)	(2,170,944)
Proceeds from investment sales	<u>2,675,498</u>	<u>1,176,145</u>
Net cash used in investing activities	<u>(811,056)</u>	<u>(903,067)</u>
Net increase in cash and equivalents	112,205	9,430
Cash and equivalents at beginning of year	<u>51,522</u>	<u>42,092</u>
Cash and equivalents at end of year	<u>\$ 163,727</u>	<u>\$ 51,522</u>

The accompanying notes are an integral part of these statements.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements

June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies:

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles appropriate for public entity risk pools, which are funds used to account for the financing of risks, exposure or liabilities of other units of government or other governments. The policies that materially affect financial position and results of operations are summarized as follows:

Organization and Nature of Business:

The Authority was formed on July 1, 2004, and is an agency separate and apart from the charter members and other units of government pursuant to Chapter 124 of the Michigan Compiled Laws. It was established for the purpose of preventing or lessening casualty losses to governmental properties which might result in claims being made against the participating public entities. The participating public entities are Zeeland, Michigan Board of Power and Water and Grand Haven, Michigan Board of Light and Power, both located in the State of Michigan.

It is the intent of the participating public entities of the Authority to create an entity which will administer a risk management fund or a joint risk management fund and utilize such funds contributed by the participating public entities to defend and protect, as provided herein, any participating public entities of the Authority and employees against stated liability or loss. The individual participating public entities retain the risk of loss in the event of claims. The participating public entities will reimburse the Authority for funds paid on their behalf if they exceed their individual contributions.

On July 1, 2004, the Authority entered into a management contract with Risk Insurance Management Company (RIMCO), an Illinois not-for-profit corporation, for risk management, investment and related insurance services.

The Authority reports as a business-type activity under governmental accounting standards. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements - Continued

June 30, 2008 and 2007

Note 1 - Summary of Significant Accounting Policies - Continued:

Deposits and Investments:

Cash and cash equivalents are considered to be cash in banks and money market accounts.

Investments are reported at fair value.

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Note 2 – Deposits and Investments:

The Authority has the following investments at June 30,:

	<u>2008</u>	<u>2007</u>
U.S. Treasuries and obligations of U.S. government corporations and agencies	\$ 812,014	\$ 1,043,054
Corporate bonds and notes	779,253	530,308
Mutual funds	872,722	416,623
Common and preferred equities	<u>1,185,498</u>	<u>849,999</u>
	<u>\$ 3,649,487</u>	<u>\$ 2,839,984</u>

Custodial Credit Risk – Deposits:

This is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. At June 30, 2008, the Authority did not have any deposits exposed to custodial credit risk.

Custodial Credit Risk – Investments:

This is the risk that, in the event of a failure of the counter-party, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2008, the Authority did not have any investments exposed to custodial credit risk.

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements - Continued

June 30, 2008 and 2007

Note 3 - Insurance Coverage:

The Authority has entered into insurance contracts for the benefit of participating public entities with various companies. These policies provide the following deductibles for the participating public entities:

Property, including building and contents, earthquake, flood and fire	\$ 250,000
Errors and omissions by employees	25,000
General liability	100,000
Auto – collision per occurrence	1,000
Umbrella	10,000
Specific to SIMS #3 generating plant (GHBLP)	500,000

Additionally, there is ocean marine coverage with a potential deductible of one-half of one percent of the insured value of the cargo, as disclosed on the bill of lading for that shipment.

The above deductibles represent the level of exposure to the participating public entities. It is the intent of the participating public entities, by having these policies, to reduce the loss that may arise from catastrophes.

Note 4 - Cash Flows Statements:

The following is a reconciliation of income from operations to cash provided by operating activities:

	<u>2008</u>	<u>2007</u>
Income from operations	\$ 923,239	\$ 912,497
Adjustments:		
Changes in assets and liabilities:		
Decrease in prepaids	<u>22</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 923,261</u>	<u>\$ 912,497</u>

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Notes to Financial Statements - Continued

June 30, 2008 and 2007

Note 5 – Prior Period Adjustment:

The Authority's financial statements for the year ended June 30, 2007, have been restated to correctly report unrealized investment gains and losses according to the guidelines of Governmental Accounting Standards Statement No. 31. This statement requires that unrealized investment gains and losses be included as revenue in the operating statement. The changes are as follows:

	<u>As Restated</u>	<u>As Originally Reported</u>	<u>Net Change</u>
Investment income for the year ended June 30, 2007	\$ <u>292,739</u>	\$ <u>116,602</u>	\$ <u>176,137</u>
Unrealized gains / losses at June 30, 2007	\$ <u>-</u>	\$ <u>145,031</u>	\$ <u>(145,031)</u>
Net assets at June 30, 2006	\$ 1,715,420	\$ 1,746,526	\$ (31,106)
Change in net assets	<u>1,205,236</u>	<u>1,029,099</u>	<u>176,137</u>
Net assets at June 30, 2007	\$ <u>2,920,656</u>	\$ <u>2,775,625</u>	\$ <u>145,031</u>

SUPPLEMENTAL SCHEDULE

MICHIGAN PROFESSIONAL INSURANCE AUTHORITY

Schedules of Net Investment Income (Loss)

For the Years Ended June 30,

	<u>2008</u>	<u>2007</u>
Investment income:		
Interest income	\$ 106,535	\$ 81,482
Dividend income	40,496	24,544
Realized and unrealized gains (losses)	<u>(138,382)</u>	<u>192,666</u>
Total	8,649	298,692
Investment expense	<u>8,916</u>	<u>5,953</u>
Net investment income (loss)	\$ <u>(267)</u>	\$ <u>292,739</u>